

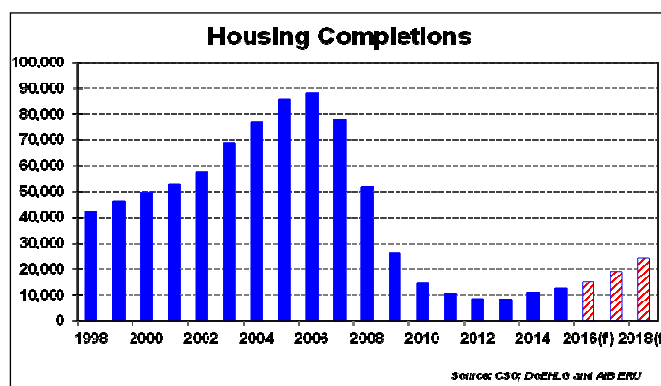
20th December 2016

## Plenty of demand side initiatives, but supply still key issue

### Recent initiatives will provide boost to already strong demand

The Irish residential property market continues to dominate public and political discourse. Recently, a lot of attention has centred on issues such as the help-to-buy scheme, the altering of the Central Bank mortgage regulations and rent control. In Budget 2017, the Government outlined a scheme that will provide first-time buyers with a rebate of income tax paid over the previous four years of up to 5% of the purchase price of a new home, up to a maximum value of €400,000. The Government hopes that this measure can provide some level of certainty to developers regarding housing demand, thereby boosting new supply.

The much debated Central Bank regulations that were introduced back in early 2015 have also been amended. First time buyers will now be able to avail of a 90% loan-to-value limit regardless of price (was previously up to €220,000 and thereafter subject to 80% LTV). However, the 3.5 times loan-to-income ratio remains in place. Meanwhile, in recent days, the Government has introduced a 4% annual cap on rents in Dublin and Cork City, with the potential for it to apply to other areas as well.



### However, supply is still the main issue...

The broad scope of the measures discussed above, mainly affect the demand side of the housing market. However, the key issue remains the on-going shortfall in supply. There are signs of a pick-up in supply, albeit it still remains at low levels. Housing completions are up over 17% year-to-date in October compared to the same period in 2015. Based on their current run rate, completions are on course for a full year total in the region of 15,000 units for 2016. In terms of forward looking supply indicators, both housing registrations and commencements data have continued on their upward trend, but in absolute level terms still remain low.

Crucially, while the projected 15,000 completions for this year compares favourably to last year's 12,660 total, it is still some way short of the estimated 25,000-30,000 units required per annum to meet housing demand. This shortfall in supply has been an ever present feature of the housing market in recent years, and based on current supply dynamics it could be 2019 at the earliest before new house building is anywhere near the required level.

### ...which continues to impact houses prices, rents, stock and the size of mortgage market

The mismatch between supply and demand is evident across a broad range of indicators for the sector. The new CSO residential property price index (now includes cash purchases as well as mortgage transactions) shows house prices rising by 7% in year-on-year terms in October. The data in recent months indicate a renewed strengthening of prices. House price inflation outside of Dublin remains higher than in the capital (10% vs. 5.5%, October 2016). At the same time, the rate of rent inflation remains very high, at nearly 10%, although there are tentative signs that the pace of increase may be slowing somewhat.

The level of stock available to rent or buy continues to fall. According to the latest Daft.ie data, the number of properties available to rent in October was down 12% versus the same period in 2015. Likewise, the sales stock also continues to decline on a yearly basis, falling by 14% in September compared to year earlier levels. This equates to roughly 1% of the total housing stock. However, in a properly functioning market, the level of stock for sale should be somewhere in the region of 3-4%.

The lack of supply of residential properties is also acting as a headwind to growth in the mortgage market. New mortgage lending for 2016 is likely to be in the region of €5.5bn. While this would represent a good increase on the €4.8bn total for 2015, it is still below what would be deemed to be a 'normal' market size of €8-10bn. Mortgage lending should see further solid growth in the next couple of years as the housing market continues to recover.

## LATEST DATA

Apr-16 May-16 Jun-16 Jul-16 Aug-16 Sep-16 Oct-16 Nov-16

### RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	58.4	57.4	61.8	61.3	63.1	59.5	63.5	63.9
Housing Registrations: Month	421	573	297	566	549	336	543	590
- 3 Month Avg YoY %	63.0	66.2	11.6	23.6	-17.4	-2.3	-2.1	87.1
- Cum 12 Mth Total	4,831	4,973	4,898	5,105	4,675	4,864	5,075	5,359
Commencements: Month	784	1,208	1,059	1,017	1,022	1,081	1,759	#N/A
- Cum 12 Mth Total	8780	9206	9553	9544	9906	9965	11053	#N/A
- Cum 12 Mth Total YoY %	93.4	75.3	65.6	47.8	44.6	34.5	44.1	#N/A
Completions: Month	1,149	1,294	1,055	1,110	1,415	1,340	1,290	#N/A
- Cum 12 Mth Total	13,384	13,687	13,683	13,673	14,139	14,259	14,411	#N/A
- Cum 12 Mth Total YoY %	14.1	17.6	15.9	14.5	16.8	17.4	17.4	#N/A

Housing PMI remained at a very strong level in November

Housing registrations rise further on a 12mth cumulative basis in November. Yearly comparison distorted by unusually strong rise in Aug'15

Commencements record strong 1,759 increase in October—12 month total now above 11k

Housing completions improving—on course for around 15k in 2016

### HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	3,655	3,846	4,005	4,356	3,986	4,306	3,942	#N/A
- 3 Month Avg YoY %	-2.1	0.0	-0.3	-2.5	-0.6	2.4	0.4	#N/A
- 12 Mth Total	47,592	47,867	47,619	47,365	47,794	47,916	47,416	#N/A
BPFI Mortgage Approvals : Month	2,601	2,616	2,909	2,908	2,948	2,766	2,628	#N/A
- 3 Month Avg YoY %	-4.9	4.9	19.9	14.5	22.9	23.5	26.6	#N/A
- 12 Mth Total	25,572	25,841	26,388	26,638	27,474	28,030	28,391	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.5	-2.5	-2.2	-2.1	-2.0	-1.9	-1.7	#N/A

YoY growth in transactions remains relatively muted

The pace of YoY growth in mortgage approvals continues to rise. Suggests impact from CB lending rules is abating

Pace of decline in outstanding mortgages continues to slow

### HOUSING MARKET PRICES

CSO (Stamp Duties) - MoM %	0.4	0.5	1.0	2.4	1.4	1.5	0.8	#N/A
- YoY %	5.8	5.4	4.9	6.6	6.8	7.6	7.1	#N/A
- Dublin YoY %	4.0	3.4	2.6	4.0	4.5	6.0	5.5	#N/A
- Ex Dublin YoY %	8.8	8.4	8.7	10.9	10.6	10.7	10.2	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	232,342	235,496	238,215	234,595	240,865	242,538	245,257	#N/A
Daft Asking Prices: MoM%	-0.6	0.8	1.4	0.9	0.9	0.6	#N/A	#N/A
- YoY %	5.3	5.5	8.1	7.1	8.1	7.7	#N/A	#N/A

CSO house prices continue to rise at a strong pace, up 7.1% YoY in October. Pace of growth in ex-Dublin (10.2%) continues to outpace Dublin (5.5%), in part due to Central Bank lending regulations

Average property transaction price has risen to c.245k in the 6 months to October

### RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	1.0	0.5	0.5	0.9	0.7	1.9	0.9	0.0
- YoY %	9.7	9.7	9.3	9.1	8.9	9.6	10.1	9.7
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	15.7	15.8	16.1	16.0	16.3	16.6	16.7	#N/A

Rents stable in Nov after 27 consecutive MoM increases. YoY price inflation at 9.7%

Lower mortgage rates mean affordability still favourable

### QUARTERLY DATA

Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16

BPFI Mortgage Drawdowns								
Purchase Drawdowns	6,929	5,113	5,437	6,334	6,780	4,634	5,767	6,894
YoY %	45.5	63.6	25.4	9.9	-2.2	-9.4	6.1	8.8
FTB YoY %	49.2	67.6	29.7	9.2	-6.9	-11.2	4.2	11.0
Mortgage Arrears 90 Days + Principal Residences								
Number of Accounts in Arrears	78,699	74,395	70,296	65,653	61,931	59,696	57,571	56,350
% of Outstanding	10.4	9.8	9.3	8.8	8.3	8.0	7.8	7.6
Buy-to-Let								
Number of Accounts in Arrears	29,224	27,492	26,071	24,809	23,344	22,516	21,962	21,435
% of Outstanding	20.7	19.7	19.0	18.1	17.0	16.5	16.3	16.2

YoY growth in mortgage drawdowns picks up in Q3 (8.8% vs 6.1% in Q2). Strong growth in FTB drawdowns also points to abating in CB lending rules impact

FTB remain the dominant source of mortgage drawdowns at 57% of total

The number of mortgages in arrears declined further in Q3, the pace of improvement has slowed, while arrears remain at high overall

Sources: Central Bank of Ireland, CSO, Daft.ie, DoEHLG, HomeBond, BPFI, RSRA, Ulster Bank, AIB ERU Calculations



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